Standard .04B(16) – Shell Space.

(a) Unfinished hospital shell space for which there is no immediate need or use shall not be built unless the applicant can demonstrate that construction of the shell space is cost effective.

(b) If the proposed shell space is not supporting finished building space being constructed above the shell space, the applicant shall provide an analysis demonstrating that constructing the space in the proposed time frame has a positive net present value that:

(i) Considers the most likely use identified by the hospital for the unfinished space;

(ii) Considers the time frame projected for finishing the space; and

(iii) Demonstrates that the hospital is likely to need the space for the most likely identified use in the projected time frame.

(c) Shell space being constructed on lower floors of a building addition that supports finished building space on upper floors does not require a net present value analysis. Applicants shall provide information on the cost, the most likely uses, and the likely time frame for using such shell space.

(d) The cost of shell space included in an approved project and those portions of the contingency allowance, inflation allowance, and capitalized construction interest expenditure that are based on the construction cost of the shell space will be excluded from consideration in any rate adjustment by the Health Services Cost Review Commission.

The design of the new Germantown hospital includes one floor of shell space in the patient tower, ~~and two rooms in the post-partum unit. Neither of these shell space areas is~~which is not supporting finished building space being constructed above. Holy Cross anticipates that with three percent growth per year in FY16 and FY17, in FY18 it will need to build out ~~both post-partum rooms and~~ half (15 beds) of the ~~5th~~-6th floor of the patient tower for general MSGA patients. The remaining 15 beds on the ~~5th~~-6th floor will, most likely, be built out in FY22

assuming a continuing three percent annual growth rate. The FY22 build-out will be a combination of critical care and intermediate care MSGA beds.

Exhibit 3 shows the impact of this projected growth on occupancy with and without the additional built-out capacity. Based on the 140% licensing law, the new hospital will have sufficient number of licensed beds to complete the build-out described above without filing an application with the Commission seeking new beds.

Holy Cross believes that the construction of the shell space when the building is initially constructed is a far better alternative than building on top of the existing structure at a later date. Modifying the existing structure to accept expansion would require relocation of the infrastructure that will be on the roof. The roof would need to be protected so that penetrations do not affect the floor below. There would be additional requirements for infection control. In addition, adding a floor on top of an existing patient care area would be very noisy and disruptive to the patients and staff below.

Whiting-Turner Contracting Company, the construction management firm working with Holy Cross, completed two vertical expansion projects in the early part of this decade. Their experience with these projects was that they were significantly more expensive than building shell space because of the reasons described above. The cost model for the Germantown hospital includes a core and shell construction cost of $152 per square foot (current dollars), i.e., the cost of constructing the building without any fit out. In comparison, the cost for vertical expansion (using Whiting Turner's experience inflated to current dollars) is $225 per square foot. Even before applying escalation to 2018, this cost is significantly higher. The fit-out cost in 2018 and 2022 (estimated to be $203 per square foot in today's dollars) would be the same whether the work is in the shell space (as planned) or in a newly constructed structure.

Since the current dollar cost of the shell space is $152 per square foot and the current dollar cost of building the same space via vertical expansion is $225, it is reasonable to conclude that the net present value of the shell space option is 32% (1- 152/225) below the net present value of the vertical expansion option. This finding is based upon the reasonable assumption that the discount rate from 2018 and 2022 to current dollars is the same as the inflation rate for such construction.

(c) Shell space being constructed on lower floors of a building addition that supports finished building space on upper floors does not require a net present value analysis. Applicants shall provide information on the cost, the most likely uses, and the likely time frame for using such shell space.

There is no shell space on lower floors of the building. ~~Several areas on the First and Second Floors include shell space that supports finished building space located above these areas, including:~~

~~D&T Building First Floor~~
~~Diagnostic imaging center, including future CT and MRI, and diagnostic testing area expansion~~

~~D&T Building Second Floor~~
~~Future operating or procedure room~~
~~Universal care center expansion~~

~~Tower Second Floor~~
~~Psychiatric unit expansion, office space or on call sleep space~~

~~The core and shell construction cost of the space identified above, like the shell space on the top floor of the patient care tower that will be used for MSGA beds and the shell space in the post partum unit is $152 per square foot. The cost in today's dollars to fit out the First Floor space (excluding the cost of the imaging equipment) would be $203 per square foot. The cost of fitting out an additional OR would be approximately $425 per square foot. Holy Cross~~

~~anticipates that these areas will be completed when MSGA beds are added on the Fifth Floor., i.e., either in 2018 or 2022.~~

(d) The cost of shell space included in an approved project and those portions of the contingency allowance, inflation allowance, and capitalized construction interest expenditure that are based on the construction cost of the shell space will be excluded from consideration in any rate adjustment by the Health Services Cost Review Commission.

Holy Cross will work with the HSCRC to identify an appropriate rate for the new hospital.